

FISCAL NOTE FOR CAPITAL PROJECTS ONLY

Department:	Contact Person/Phone:	CBO Analyst/Phone:
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Legislation Title:

AN ORDINANCE relating to the electric system of The City of Seattle; authorizing the issuance and sale of municipal light and power revenue bonds for the purposes of providing funds for certain additions and betterments to and extensions of the existing municipal light and power plant and system of the City, paying the costs of issuance of those bonds and providing for the reserve fund requirement; providing for the terms, conditions, covenants and manner of sale of those bonds; describing the lien of those bonds; and ratifying and confirming certain prior acts.

Summary and background of the Legislation:

This legislation provides the legal authorization to issue up to \$278 million of bonds for Seattle City Light's System to fund a portion of capital expenditures outlined in the Proposed 2015-2020 Capital Improvement Program (CIP).

Although the Budget, CIP, and adopted rates make specific assumptions about the use of debt financing for a certain share of the CIP, separate authorization for the issuance of bonds is technically required.

A Seattle City Light bond sale for approximately \$100 million of variable rate debt is anticipated to occur in June 2015. This variable rate debt is expected to provide cost savings while hedging against the variable interest earned on City Light's cash balances. A separate fixed rate issue of approximately \$178 million is expected to follow within two months of the variable rate issue. The bond proceeds, combined with internally generated funds, will support the Seattle City Light's capital program for about 9 months.

The bond sizing is based on the proposed budget and rates, planned cash flow, and cash contribution targets. The bond proceeds will also be used to make a deposit to the construction fund to meet a required debt service reserve requirement, and to pay issuance costs.

Both proposed issues are for a maximum maturity of 30 years. For the variable rate issue, monthly interest payments will commence one month after issue; the amount of interest paid will vary with market interest rates. City Light is assuming a conservative 2.5% interest for the near term and annual debt service in 2016 is estimated to be about \$4.8 million. The fixed rate debt issue is expected to have a flat annual debt service payment of around \$11.6 million, starting in

2016. SCL's proposed 4.2% rate increase for 2015 incorporates the debt service costs resulting from this bond issue.

Major projects supported by the bond issue include generator rebuilds, existing network upgrades, relocating electrical service to accommodate transportation projects, advanced metering infrastructure, and construction of the new Denny substation. For further information about SCL's capital projects, please see the Proposed 2015-2020 CIP.

Please check any of the following that apply:

☐ This legislation creates, funds, or anticipates a new CIP Project.

☐ This legislation does not have any financial implications.

☒ This legislation has financial implications.

Other Implications:

a) Does the legislation have indirect financial implications, or long-term implications?

Seattle City Light will be obligated to pay debt service on these bonds through their term.

b) What is the financial cost of not implementing the legislation?

Financing the utility's CIP completely from cash would require massive cuts in capital and/or operating programs or massive rate increases. Since the capital improvements financed with this debt have a long useful life and interest rates are currently low, it is more practical to spread the costs of these improvements over current and future beneficiaries by issuing bonds.

c) Does this legislation affect any departments besides the originating department?

This legislation affects FAS, which will coordinate the issuance of bonds.

What are the possible alternatives to the legislation that could achieve the same or similar objectives?

There are no viable alternatives aside from financing the SCL System's CIP completely from cash. As noted above, this would require massive cuts in capital and/or operating programs or massive rate increases or some combination of both.

d) Is a public hearing required for this legislation?

No

- e) **Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?**

No

- f) **Does this legislation affect a piece of property?**

No

- g) **Other Issues:**

None

List attachments to the fiscal note below: